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Tar Sands Make Canada Energy Powerhouse

FORT McMURRAY, Canada (AP) - The smell of oil hangs in the air over the Muskeg River Mine, a vast open pit the size of several dozen city blocks. Fed by enormous hydraulic shovels, huge dump trucks carry black, sticky sand that will eventually be turned into crude oil.

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"That smell? That's hydrocarbons," said Chris Jones, chief operating officer of the Albion Sands Energy Inc. "It smells like money."

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Lots of money.

Canada has become an energy powerhouse by separating petroleum from sand. Oil sands -- also called tar sands -- are found in an area almost half the size of Colorado spread across central Alberta, 240 miles northeast of Edmonton. The deposits account for roughly half of Canada's crude oil output, or about 1 million barrels of oil a day.

Canada estimates the sands will yield as much as 175 billion barrels of oil, making it second only to Saudi Arabia in crude oil reserves and enough to satisfy U.S. demand for at least a generation.

A group of congressional staffers recently toured Alberta, eager to learn whether the unusual oil industry here can somehow serve as a model for oil shale production in Utah, Colorado and Wyoming.

"If they can do it, we in Utah can do it," said Sen. Orrin Hatch, R-Utah. "Unconventional fuels like tar sands and oil shale are the real thing."

Unconventional oil -- petroleum in any form other than the familiar fluid -- has sat on the sidelines of the oil industry for decades. The major source of unconventional oil in the U.S. is shale, but all sources are getting a new look.

"Unconventional was a key word for 'uneconomic' in the past," said Tom Ahlbrandt, world energy project chief for the U.S. Geological Survey in Denver. "They are clearly not uneconomic any more."

Altogether, oil from oil sand costs somewhere between \$15 and \$20 a barrel to produce -- on average, at least a few dollars more than pumping liquid oil.

But with oil prices above \$60 a barrel and technological breakthroughs making it easier to harvest oil from sand, business is booming. Jones said the only thing keeping companies from expanding even faster is a shortage of skilled labor and the right equipment.

The growth is not without concern and even provincial officials concede nothing on the scale of the oil sands has ever been done before. Because the industry is so new, environmental impacts are still being assessed.

Dan Woynillowicz, a policy analyst for the Pembina Institute, a Canadian environmental think tank, said Canadians were surprised at how fast the oil sands industry took off. They don't really know the long-term effects, Woynillowicz said.

"So many of the (environmental) issues are in the future," he said.

Separating oil from sand takes a lot of water and a lot of energy. There is talk of building a nuclear power plant to supply more energy to the Fort McMurray area or a natural gas pipeline from the Canadian arctic.

Conservationists are dead set against that plan.

"Essentially we're taking one fossil fuel for another fossil fuel, and all we're getting in the northwest is climate change," said Lewis Rifkind, energy coordinator for the Yukon Conservation Society.

Oil sands proponents point out that other industries, including conventional oil, require lots of water. Agriculture accounts for more than 70 percent of the water used in the province. Industry officials also say they recycle a significant amount of that water and that they are working to reduce carbon dioxide emissions.

But Woynillowicz said he thinks it might be time to slow things down and take stock of what the oil sands boom means for the environment.

"It's a bit like a game of Russian roulette," he said. "Ultimately, it puts the government and industry and the public in the position of having to react rather than understanding and taking a best-practices approach before it gets to a tipping point."

EDITOR'S NOTE -- Supporters of oil shale production in the United States need look no farther than Canada for a booming example of an unconventional way to extract the precious resource. In the third installment of a five-part series, The Associated Press visits Alberta -- ground zero for the tar sands industry, which has the local economy humming and conservation groups worried that the environment is taking a back seat to production.

On the Net:

Alberta energy department: <http://www.energy.gov.ab.ca/default.asp>

Canadian Association of Petroleum Producers: <http://www.capp.ca>

Pembina Institute: <http://www.pembina.org>

Wood Buffalo Environmental Association: <http://www.wbea.org/html/home.html>

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